

## Message Text

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ACTION EA-10

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C O N F I D E N T I A L SEOUL 5070

E.O. 11652: GDS

TAGS: MPOL, EFIN, KS

SUBJECT: KOREAN DEFENSE EXPENDITURES IN 1975 AND 1976

REF: (A) SEOUL 4777, (B) SEOUL 4937

SUMMARY: BASED ON INFORMATION OBTAINED FROM MINISTRIES OF NATIONAL DEFENSE AND FINANCE, IT APPEARS DEFENSE EXPENDITURES WILL APPROXIMATE DOLS 1.0 BILLION IN 1975 AND DOLS 1.2 BILLION IN 1976, COMPARED TO ORIGINAL 1975 BUDGET FIGURE OF DOLS 730 MILLION. PRECISE CONTENT OF EXPENDITURE INCREASES BEING DETERMINED IN BUDGET PROCESS BUT MND KNOWN TO BE SEEKING HIGHER OUTLAYS FOR INCREASED READINESS, FORTIFICATIONS AND AMMO PURCHASES, AMONG OTHERS. MINISTER OF FINANCE HAS INDICATED HE HOPES ROKG FOREIGN EXCHANGE EXPENDITURES CAN BE MINIMIZED UNTIL 1978 WHEN BALANCE OF PAYMENTS SHOULD BE MUCH IMPROVED. HE ALSO DISCLOSED THAT SOME MEMBERS OF GOVERNMENT OPPOSED RECENT DECISION TO LEVY LARGE DEFENSE TAX ON GROUNDS IT COULD RESULT IN REDUCED U.S. MILITARY ASSISTANCE. END SUMMARY

1. 1975 EXPENDITURES. AFTER APPROVAL OF ABOUT 100 BILLION WON IN THE SUPPLEMENTAL BUDGET NEXT FALL AND INCLUSION OF

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ABOUT 30 BILLION WON IN NON-MND DEFENSE EXPENDITURES,

TOTAL 1975 DEFENSE EXPENDITURES SHOULD APPROXIMATE 485 BILLION WON (DOLS 1.0 BILLION) COMPARED TO 353 BILLION WON (DOLS 730 MILLION) IN PRESENT MND BUDGET. MND ORIGINALLY REQUESTED 191 BILLION WON FOR SUPPLEMENTAL TO COVER ADDITIONAL OUTLAYS FOR INCREASED READINESS, AMMO PURCHASES, FORTIFICATION CONSTRUCTION AND IMPROVEMENTS, NEW CIVIL DEFENSE TRAINING AND UNSPECIFIED "MOD PLAN CHANGES". (LATTER PHRASE USED IN CONVERSATION BY HIGH MND OFFICIAL WHO DID NOT WISH TO ELABORATE, BUT REFERENCE IS PRESUMABLY TO FMS AND OTHER CASH PURCHASES MND HAS WISHED TO MAKE TO ACCELERATE WEAPONS BUILD-UP.) MND SUPPLEMENTAL REQUEST HAS BEEN TRIMMED TO ABOUT 100 BILLION WON BY ECONOMIC MINISTRIES, WITH PRECISE CONTENT STILL UNDER STUDY AND DISCUSSION.

2. REFERENCE TO NON-MND DEFENSE EXPENDITURES OF ABOUT 30 BILLION WON BY BOTH MINISTER OF FINANCE AND HIGH MND OFFICIAL IN CONVERSATION IS FIRST EXPLICIT RECOGNITION OF "HIDDEN" DEFENSE EXPENDITURES. MND OFFICIAL SAID EXPENDITURES WERE FROM "PRESIDENT'S RESERVE FUND" AND INCLUDED 8-10 BILLION WON FROM VOLUNTARY DEFENSE CONTRIBUTIONS. MINISTER OF FINANCE WAS LESS EXPLICIT BUT SAID VOLUNTARY CONTRIBUTIONS INCLUDED. NO INDICATION GIVEN AS TO NATURE OF EXPENDITURES FINANCED EXCEPT BOTH SAID OUTLAYS INCLUDED FMS DEBT SERVICE OF 11 BILLION WON (DOLS 22 MILLION). (OTHER INFO HAS INDICATED LATTER PAID BY MINISTRY OF FINANCE ALONG WITH OTHER DEBT SERVICE.)

3. NEW ESTIMATE OF 1975 DEFENSE EXPENDITURES WOULD RAISE DEFENSE BURDEN TO 5.2-5.4 PERCENT OF GNP, DEPENDING ON CHOICE OF ESTIMATES FOR GNP GROWTH AND INFLATION. (NOTE: 1975 OUTLOOK REMAINS SIMILAR TO THAT REPORTED REF (A). HOWEVER, PARA 3, REF (A), SHOULD HAVE STATED THAT ORIGINAL 1975 BUDGET PROJECTED 4.0 PERCENT DEFENSE BURDEN RATHER THAN 4.7 PERCENT.)

4. 1976 EXPENDITURES. MND INDICATES IT INITIALLY SOUGHT DOLS 1.4 BILLION FOR 1976 BUDGET BUT IS CURRENTLY PLANNING IN TERMS OF DOLS 1.2 BILLION FIGURE GIVEN BY ECONOMIC MINISTRIES. LATTER WILL REPORTEDLY REPRESENT 6 PERCENT OF ESTIMATED 1976 GNP, WHICH IS APPROXIMATE LEVEL FORESEEN FOR CONFIDENTIAL

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FUTURE DEFENSE BURDEN BY ECONOMIC MINISTRIES. CONTENT NOT YET DETERMINED.

5. FOREIGN EXCHANGE COSTS. NO INFO AVAILABLE ON THIS, APPARENTLY BECAUSE NUMEROUS ASPECTS UNDER REVIEW. MINISTER OF FINANCE SAID DEPUTY PRIME MINISTER AND HE FAVOR MINIMIZING DEFENSE FX EXPENDITURES UNTIL 1978 WHEN BOP SITUATION SHOULD BE MUCH BETTER. IN MEANTIME, EMPHASIS SHOULD

BE ON DOMESTIC DEFENSE IMPROVEMENTS AND DEVELOPMENT OF DEFENSE PRODUCTION CAPACITY. HE INDICATED HE THOUGHT OUTLOOK GOOD FOR SUBSTANTIAL U.S. MILITARY ASSISTANCE FOR ABOUT 3 MORE YEARS. HE DISCLOSED THAT RECENT DECISION IN FAVOR OF LARGE DEFENSE TAX (REF A) HAD BEEN OPPOSED BY SOME WITHIN GOVERNMENT ON GROUNDS IT WOULD RESULT IN REDUCED U.S. ASSISTANCE. HE SAID PRESIDENT PARK TOOK OPPOSITE VIEW, BELIEVING U.S. WOULD REACT FAVORABLY TO EVIDENCE OF KOREAN DETERMINATION TO MAKE NECESSARY SACRIFICES FOR INCREASED SELF-DEFENSE.

6. COMMENT: MND EXPENDITURE PLANS FOR 1975 SUPPLEMENTAL APPARENTLY DO EMPHASIZE DOMESTIC CONSTRUCTION AND PROCUREMENT ALTHOUGH FX PURCHASES, PARTICULARLY OUT OF "RESERVE FUND", REMAIN IMPORTANT UNDECIDED ELEMENT. NOTE ALSO THAT PRIME MINISTER IN RECENT REMARKS TO NATIONAL ASSEMBLY (REF B) SAID NEW DEFENSE TAX THROUGH 1980 WILL BE USED IN PART TO PRODUCE HIGH EFFICIENCY, HIGH PRECISION NON-NUCLEAR WEAPONS WHICH, ALONG WITH OTHER DEVELOPMENTS, WILL ELIMINATE NEED FOR DIRECT U.S. ASSISTANCE WITHIN FIVE YEARS.  
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